THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

ANTHONY SANDONATO

OCTOBER 12, 2018

DOCKET NO. 2018-5-G

ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS PURCHASING POLICIES OF SOUTH CAROLINA ELECTRIC & GAS COMPANY

DIRECT TESTIMONY OF

ANTHONY SANDONATO

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

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IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS PURCHASING POLICIES OF SOUTH CAROLINA ELECTRIC & GAS COMPANY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony Sandonato. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") in the Utility Rates and Services Division as a Regulatory Analyst.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Science in Nuclear Engineering from North Carolina State University in 2011. Prior to my employment with ORS, I was employed as an analyst with a global professional, technology, and marketing service firm working with large investor-owned utilities on energy efficiency program design and implementation. I joined ORS in 2016.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION")?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony will present ORS's review findings related to South Carolina Electric & Gas Company's ("SCE&G" or "Company"):

1) Natural gas purchasing policies for the twelve (12) month period of August 2017 through July 2018 ("Review Period");
2) Ability to serve the firm customers during the Review Period and for the upcoming winter season;
3) Recovery of its purchased gas cost in accordance with the Commission approved purchased gas adjustment ("PGA") tariff or gas cost recovery mechanism; and
4) Updated calculation of the demand cost of gas ("DCOG") allocation factors.

Q. DID ORS REVIEW THE COMPANY'S CONSTRUCTION AND MAINTENANCE PROJECTS DURING THE REVIEW PERIOD?

A. Yes. ORS reviewed the Company's construction and maintenance projects and found the projects promote safe and reliable delivery of natural gas to customers. Specifically, the projects outlined in Company witness Howard's testimony provide additional gas infrastructure and aid in expanding the natural gas distribution system.

In addition, SCE&G is required to file new construction notices with the Commission for any project expected to exceed $500,000 pursuant to S.C. Code Ann. Reg. 103-412.2.7(A) (2012). During the Review Period, the Company filed eleven (11) such notices under Docket No. 2006-244-G.

These projects included, but were not limited to:

- Construction of steel main approximately 1.38 miles northeast of the Georgia-South Carolina border to the intersection of U.S. Highway 17 and S.C. Highway 170 to relocate the existing line due to the SC Department of Transportation's ("SCDOT") widening of U.S. Highway 17;
- Upgrade the plant grounding system at Bushy Park;
- Replace existing steel gas mains in Charleston to accommodate the SCDOT's Port Access Project; and
- Construction of steel high pressure gas mains in the following areas:
    - Richland County to serve industrial load in the Pineview Industrial Park;
    - Conway to serve load demands in Myrtle Beach;
    - Berkley County to serve additional residential, commercial, and industrial development in Moncks Corner; and
    - Bluffton to serve anticipated load in the Riverport development.

As part of this docket, ORS did not review these projects for reasonableness or cost. Such a review is completed as part of the annual review under the Rate Stabilization Act.

Q. DID ORS REVIEW THE COMPANY'S ABILITY TO MANAGE ITS CAPACITY AND SUPPLY DURING THE REVIEW PERIOD?

A. Yes. During the Review Period, the Company purchased and managed its transportation capacity contracts with Southern Natural Gas Company ("Southern"), Transcontinental Gas Pipeline Corporation ("Transco"), and Dominion Energy Carolina Gas Transmission Corporation ("DECGT"). The Company also managed the sharing of interstate transportation capacity between its gas and electric departments pursuant to a Memorandum of Understanding which was approved by the Commission in Order 2015-

844. The Company purchased and managed its interstate underground natural gas storage and off-system Liquefied Natural Gas ("LNG") capacity assets on the Southern and Transco interstate systems. In addition, the Company managed and operated its two (2) Company-owned LNG facilities. These Company capacity assets are discussed in Company witness Jackson's direct testimony and are shown in Exhibits RMJ-1 and RMJ-3.

SCE&G was responsible for purchasing and managing natural gas commodity supplies from multiple sources for the Company's three (3) gas supply options of 1) wellhead gas supply, 2) interstate storage, and 3) on-system LNG storage. The Company's supply portfolio and the use of the various services within the portfolio are also discussed in the direct testimony of Company witness Jackson.

ORS reviewed the Company's capacity and supply asset management during the Review Period. ORS found that SCE&G managed its capacity assets for interstate pipeline transportation, interstate pipeline storage, and its LNG facilities as well as purchased natural gas commodity supplies to meet the customers' needs and provide reliable firm service at reasonable costs.

Specifically, ORS reviewed a sample of the Company's gas purchases during the Review Period. ORS compared the individual sampled gas purchases to the appropriate New York Mercantile Exchange ("NYMEX") indicators on the spot market or on a month ahead basis to determine if the specific gas costs the Company contracted at were within a reasonable band at the given time. ORS determined the sampled purchases were reasonable in comparison to the market costs for the given period.

Additionally, ORS reviewed a sample of the Company's capacity contracts. These contracts are long-term, and the prices paid by the Company to the major interstate pipelines are regulated by a Federal Energy Regulatory Commission ("FERC") tariff. ORS confirmed the contract terms for the Company's capacity contracts reflected prices in line with FERC tariff levels for a sample of the gas capacity contracts in place.

Q. DOES ORS ANTICIPATE THE COSTS ASSOCIATED WITH THE COMPANY'S INTERSTATE PIPLELINE ASSETS TO CHANGE IN THE NEAR FUTURE?

A. Yes. Company witness Jackson discussed on page 8 of her testimony that the Company reached a pre-filed FERC rate case settlement with Southern that included a decrease associated with the Federal Tax Cuts and Jobs Act ("Tax Act"). Transco filed a rate case on August 31, 2018 that will evaluate the impact of the Tax Act. In addition, DECGT is required to file a FERC Form No. 501-G in response to the Tax Act prior to November 8, 2018.

Q. DID THE COMPANY MINIMIZE GAS INTERRUPTIONS DURING THE 2017 – 2018 WINTER SEASON?

A. Yes. During the Review Period, the Company experienced four (4) instances of system-wide gas interruption as detailed below:

- December 7, 2017: Seven (7) day interruption was initiated for large industrial customers on interruptible rate schedule 9. On December 8, 2018, this interruption was expanded to all commercial and industrial customers on interruptible rate schedules 3D and above. These customer classes have alternative fuels available. The average temperature in Columbia during the seven (7) days of this interruption was 43°F compared to a normal average of 47°F.

- December 28, 2017: Twelve (12) day interruption was initiated for all commercial and industrial customers on interruptible rate schedules. These customer classes have alternative fuels available. The average temperature in Columbia during the twelve (12) days of this interruption was 32°F compared to a normal average of 44°F.
- January 13, 2018: Seven (7) day interruption was initiated for all commercial and industrial customers on interruptible rate schedules. These customer classes have alternative fuels available. The average temperature in Columbia during the seven (7) days of this interruption was 38°F compared to a normal average of 45°F.
- January 30, 2018: Two (2) day interruption was initiated for all commercial and industrial customers on interruptible rate schedules. These customer classes have alternative fuels available. The average temperature in Columbia during the two (2) days of this interruption was 40°F compared to a normal average of 46°F.

Q. DID ORS REVIEW THE COMPANY'S ABILITY TO MEET FIRM CUSTOMERS' GAS REQUIREMENTS DURING THE 2018-2019 WINTER SEASON?

A. Yes. ORS reviewed the Company's capacity contracts to determine if there was sufficient capacity contracted to meet firm customer's peak design day requirements. Additionally, ORS reviewed the Company's commodity supply contracts to determine if the Company would have an adequate source of viable gas suppliers from whom to purchase both monthly gas supply as well as spot gas. Finally, ORS reviewed the Company's current distribution system to ensure the Company will be able to deliver gas within its system to all service areas. ORS concluded the Company prepared a capacity and supply asset portfolio to sufficiently and reliably meet the 2018-2019 winter season's projected firm customers' requirements.

Q. WHAT IS THE SYSTEM-WIDE RESERVE CAPACITY FOR THE COMPANY?

A. The Company's system-wide reserve capacity during the last five (5) winter seasons is illustrated in the table below:

Reserve Margin	Winter Season
7.21%	2013-2014
8.83%	2014-2015
6.81%	2015-2016
5.49%	2016-2017
2.81%[1]	2017-2018

The Company is projecting an increase to 4.11% in the system-wide reserve capacity margin for the 2018-2019 winter season. This includes 5,000 Dt per day of firm capacity acquired from DECGT in addition to the 50,000 Dt per day of firm capacity as reported in Docket No. 2017-5-G. The contract for the 5,000 Dt per day commences November 1, 2018.

Q. IS THE COMPANY'S RESERVE CAPACITY MARGIN SUFFICIENT TO PROVIDE RELIABLE SERVICE TO MEET CUSTOMER REQUIREMENTS ON PEAK DAYS?

A. Yes. However, ORS is concerned that steady residential customer growth in SCE&G service territory and the increased reliance on natural gas for electric generation

[1] Does not include 50,000 Dt per day of firm capacity as reported in Docket No. 2017-5-G that the Company contracted with DECGT with an in-service date of March 1, 2018.

could impact capacity reserves and cause service reliability issues on peak demand days. In addition, as identified by Company witness Jackson on pages 8 and 9 of her testimony, the Company is unable to continue to rely on segmentation to meet its design day customer needs. Going forward, system growth will be reviewed by the Company based on specific area points versus system-wide which could identify service regions within the system with a much lower reserve capacity margin. The electric utility industry has adopted certain reserve capacity margin benchmarks; however, the natural gas utility industry does not use a similar benchmark. ORS will continue to monitor SCE&G's ability to serve both its firm and interruptible customers in the upcoming winter seasons.

Q. PLEASE DESCRIBE THE COMPANY'S GAS COST RECOVERY PROCEDURES APPROVED BY THE COMMISSION.

A. The Commission approved SCE&G's gas cost recovery mechanism in Order 2005-653. In that Order, a two-part cost of gas recovery mechanism was approved. That mechanism involves: 1) a Firm Commodity Benchmark component which is calculated to recover the commodity cost of gas purchased; and 2) a demand component which is calculated to recover the associated DCOG. The demand component charge includes the fixed charges by upstream pipelines for transportation and storage services. The current "Purchased Gas Adjustment, Firm Gas Only" tariff sheet was approved by the Commission in Order 2009-910 and became effective in January 2010.

Q. PLEASE DISCUSS THE OPERATION OF THE TWO-PART COST OF GAS RECOVERY MECHANISM.

A. All firm customers are charged the same Firm Commodity Benchmark cost. The demand charge cost component is calculated for each customer class (Residential, Small/Medium General Service, and Large General Service) based on an equal (50%/50%) weighting of peak design day projected demand and annual forecast **s**ales volumes. In computing the demand charge component for the firm customers, seventy-five percent (75%) of the revenue generated from capacity release of upstream assets, as well as all net revenues from interruptible sales and transportation service are credited against the firm demand charges.

Added together, these two (2) components (i.e. the commodity and demand costs) equal the PGA factor for each firm customer class.

Q. DURING THE REVIEW PERIOD, DID SCE&G FILE MONTHLY NOTIFICATIONS OF THE FIRM PGA FACTORS RESULTING FROM THE TWELVE (12) MONTH ROLLING FORECAST OF GAS COSTS WITH THE COMMISSION AND ORS?

A. Yes. Under the provisions of Order 2006-679, SCE&G can make monthly adjustments in its PGA factors after the Company completes an updated monthly forecast to determine if there is a "material difference" for any customer class equal to or greater than $0.01 per therm. However, in Commission Order 2009-910, the Commission found that the monthly adjustment procedure for the total cost of gas factors as adopted in the above-referenced Order should be maintained subject to the following modifications:

a) The amount designated as a "material difference" is increased from an amount "equal to or greater than $0.01 per therm" to an "amount greater than $0.04 per therm;"

b) If the calculated difference is greater than $0.04 per therm, then the Company is required to adjust its rates;

c) If the calculated difference is less than or equal to $0.04 per therm, then the Company has the discretion to adjust rates if it believes there would be a reasonable impact to customer bills; and

d) The criteria set forth in (a) and (b) are to be applied by customer class and not by component within customer class.

In this Review Period, the Company filed monthly notifications with the Commission and ORS for each of the twelve (12) months, three (3) of which included changes in its PGA factor. ORS found the Company adjusted the PGA factors during the Review Period in a manner consistent with the Company's current Commission approved PGA tariff and Commission Orders.

Q. DESCRIBE ORS'S REVIEW AND FINDINGS REGARDING THE COMPANY'S RECOVERY OF PURCHASED GAS COSTS FOR THE REVIEW PERIOD?

A. ORS reviews the Company's monthly filings as submitted to the Commission regardless of whether there is a change in the cost of gas. The ORS review includes an examination of the Company's expected weather normalized sales at NYMEX futures prices by customer class for the next twelve (12) months and weather normalized demand cost recovery by customer class over the next twelve (12) months. If the combined cost of gas meets the Material Difference threshold of $0.04 per therm, ORS expects the new cost of gas factors required to recover the Company's current over or under collection will be put into effect for the following month.

ORS found that SCE&G administered and recovered its gas costs during the Review Period in a manner consistent with the Company's current Commission approved PGA tariff and Commission Orders.

Q. DOES ORS AGREE WITH THE COMPANY'S PROPOSED DCOG ALLOCATION FACTORS UPDATED FOR THE COMPANY'S CURRENT FORECAST AND ITS IMPLEMENTATION EFFECTIVE FOR THE FIRST BILLING CYCLE IN JANUARY 2019?

A. Yes. The Company's DCOG factors are developed to allocate demand costs between customer classes in proportion to the impact on demand requirements for SCE&G's natural gas distribution system. ORS reviewed the calculations of the DCOG factors provided in the direct testimony of Company witness Elliott which are updated for the Company's current forecast of annual sales and peak design day demand for the upcoming winter season. ORS agrees with the calculation of the proposed DCOG factors and with the Company's proposal to implement these DCOG allocation factors effective for the first billing cycle in January 2019.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, this concludes my testimony.